

Financial statements of

Artscape Non-Profit Homes Inc.

December 31, 2012 and 2011

Artscape Non-Profit Homes Inc.

December 31, 2012 and 2011

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Independent Auditor's Report

To the Directors of
Artscape Non-Profit Homes Inc.

We have audited the accompanying financial statements of Artscape Non-Profit Homes Inc., which comprise the statement of financial position as at December 31, 2012, December 31, 2011, the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012, and December 31, 2011, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of Artscape Non-Profit Homes Inc. in accordance with the basis of accounting described in Note 3.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 3, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Artscape Non-Profit Homes Inc. as at December 31, 2012, December 31, 2011, and January 1, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012, and December 31, 2011, in accordance with the basis of accounting described in Note 3.

Basis of Accounting and Restriction on Use and Distribution

Without modifying our opinion, we draw attention to Note 3 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Artscape Non-Profit Homes Inc. to comply with financial reporting provisions of the Acts referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Artscape Non-Profit Homes Inc. and the City of Toronto Shelter, Support and Housing Administration and should not be distributed to or used by parties other than Artscape Non-Profit Homes Inc. and the City of Toronto Shelter, Support and Housing Administration.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
May 27, 2013

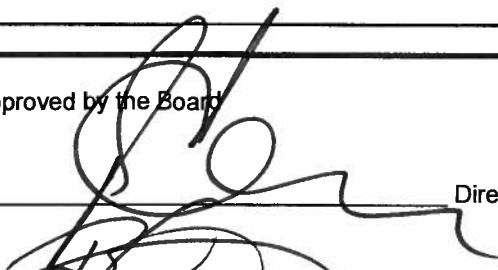
Artscape Non-Profit Homes Inc.

Statements of financial position


as at December 31, 2012, December 31, 2011, and January 1, 2011

	December 31, 2012	December 31, 2011	January 1, 2011 (Note 2)
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents	55,363	45,420	115,382
Receivables	49,037	34,202	15,573
Capital reserve investment funds (Note 9)	306,931	270,892	248,191
Prepaid expenses	-	1,772	105
Due from City of Toronto Social Housing (Note 8)	54,324	73,502	48,250
	465,655	425,788	427,501
Capital assets (Note 4)	5,037,358	5,240,058	5,435,454
Capital work-in-process (Note 5)	154,589	160,450	24,259
	5,657,602	5,826,296	5,887,214
Liabilities			
Current liabilities			
Due to City of Toronto social housing	18,791	918	-
Accounts payable and accrued liabilities	113,011	133,496	89,714
Tenant deposits and rents received in advance	24,053	20,742	19,903
Deferred revenue - Strong Start mortgage subsidy	7,765	7,765	7,765
Current portion of long term debt (Note 7)	215,275	207,110	199,368
Due to related party (Note 6)	11,116	17,536	43,671
	390,011	387,567	360,421
Deferred capital contributions - work-in-process (Note 5)	161,145	163,911	83,210
Long term debt (Note 7)	4,727,753	4,943,022	5,150,126
	5,278,909	5,494,500	5,593,757
Net assets			
Capital reserve fund (Note 9)	212,679	191,831	192,913
Capital replacement reserve fund (Note 9)	94,252	79,061	55,278
Unrestricted	71,762	60,904	45,266
	378,693	331,796	293,457
	5,657,602	5,826,296	5,887,214

Approved by the Board



Director



Director

The accompanying notes to the financial statements are an integral part of this financial statement.

Artscape Non-Profit Homes Inc.

Statements of operations years ended December 31, 2012 and 2011

	2012	2011
		(Note 2)
	\$	\$
Revenue		
City of Toronto Social Housing subsidy - regular (Note 8)	359,580	332,760
Affordable Housing Program (AHP) mortgage subsidy	93,178	93,178
Due to City of Toronto	(17,873)	-
Additional subsidy receivable	-	23,441
Net subsidy	434,885	449,379
Less allocated to Capital reserve fund (Note 9)	(43,151)	(40,610)
	391,734	408,769
Rental income	316,756	288,794
Interest and other	5,848	17,365
	714,338	714,928
Expenses		
Property expenses	186,181	182,703
Mortgage interest	203,246	210,988
Realty taxes	51,809	52,081
Administration and contract fees	58,870	57,981
Amortization	202,700	195,396
Other	674	141
	703,480	699,290
Excess of revenue over expenses for the year	10,858	15,638

The accompanying notes to the financial statements are an integral part of this financial statement.

Artscape Non-Profit Homes Inc.

Statements of changes in net assets
years ended December 31, 2012 and 2011

	Capital replacement reserve fund	Capital reserve fund	Unrestricted fund	2012 Total	Capital replacement reserve fund	Capital reserve fund	Unrestricted fund	2011 Total (Note 2)
	\$	\$	\$	\$	\$	\$	\$	\$
Balances, beginning of year (Note 2)	79,061	191,831	60,904	331,796	55,278	192,913	45,266	293,457
Excess of revenue over expenses for the year	-	-	10,858	10,858	-	-	15,638	15,638
Investment in Reserve funds (Note 9)	15,191	20,848	-	36,039	23,783	(1,082)	-	22,701
Balance, end of year	94,252	212,679	71,762	378,693	79,061	191,831	60,904	331,796

The accompanying notes to the financial statements are an integral part of this financial statement.

Artscape Non-Profit Homes Inc.

Statements of cash flows years ended December 31, 2012 and 2011

	2012	2011
		(Note 2)
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	10,858	15,638
Item not involving cash		
Amortization	202,700	195,396
	213,558	211,034
Changes in non-cash operating assets and liabilities		
Receivables	(14,835)	(18,629)
Prepaid expenses	1,772	(1,667)
Due to related party	(6,420)	(26,135)
Accounts payable and accrued liabilities and due to City of Toronto		
Social Housing	(2,612)	44,700
Due from City of Toronto Social Housing	19,178	(25,252)
Tenant deposits and rents received in advance	3,311	839
	213,952	184,890
Investing activities		
Reduction in (additions to) capital work-in-progress	5,861	(136,191)
Reductions in (additions to) deferred capital contributions - work-in-progress	(2,766)	80,701
Increase in capital reserve investments	(36,039)	(22,701)
	(32,944)	(78,191)
Financing activities		
Decrease in long term debt	(207,104)	(199,362)
Increase in capital reserve funds	36,039	22,701
	(171,065)	(176,661)
Increase (decrease) in cash and cash equivalents during the year	9,943	(69,962)
Cash and cash equivalents, beginning of year	45,420	115,382
Cash and cash equivalents, end of year	55,363	45,420

The accompanying notes to the financial statements are an integral part of this financial statement.

Artscape Non-Profit Homes Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

1. Establishment and operations

Artscape Non-Profit Homes Inc. ("ANPHI") was incorporated as a not-for-profit corporation on July 29, 1994 without share capital. ANPHI was created specifically to develop and manage those current and future projects of Toronto Artscape Inc. ("Artscape") intended to meet the affordable housing and live/work studio needs of low and middle income artists of all disciplines.

2. Establishment and operations

During the year ended December 31, 2012, ANPHI adopted the new Canadian accounting standards for not-for profit organizations ("ASNPOs") issued by the Canadian Institute of Chartered Accountants ("CICA"). In accordance with Section 1501 of the CICA Handbook, "First-time adoption", ("Section 1501"), the date of transition to ASNPOs is January 1, 2011 and ANPHI has presented an opening statement of financial position as at that date. This opening statement of financial position is the starting point for ANPHI's accounting under ASNPOs. In its opening statement of financial position, under the recommendations of Section 1501, ANPHI:

- i) recognized all assets and liabilities the recognition of which is required by ASNPOs;
- ii) did not recognize items as assets or liabilities if ASNPOs do not permit such recognition, and;
- iii) applied ASNPOs in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 1501, the accounting policies set out in Note 3 have been consistently applied to all years presented. ANPHI has not applied any of the exemptions available under Section 1501, as it has determined there is no financial impact on the financial statements.

The adoption of ASNPOs has no impact on the previously reported Statement of financial position as at January 1, 2011, or on the previously reported Statements of operations, changes in net assets, and cash flows for the year ended December 31, 2011. Consequentially, a reconciliation of previously reported items to those reporting using ASNPOs has not been prepared.

3. Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with Section 80 (2.) of the Housing Services Act and Section 113 (2) of the Ontario Social Housing Reform Act and guidance in its application by the City of Toronto. The basis of accounting used in these financial statements materially differs from Canadian ASNPOs as follows:

- (a) Capital assets, consisting of the building and land at 900/906/910 Queen St. W. and the leasehold improvements and land at the Artscape Wychwood Barns, are recorded at cost less government and related grants and donations.
- (b) Amortization on the buildings is provided at a rate equal to the annual principal reduction of the related mortgage, rather than over the estimated useful lives of the assets.
- (c) The net book value of the building and land at 900/906/910 Queen St. W. at year end must equal the principal balance of the related mortgage loans.
- (d) Capital asset purchases, unless otherwise funded, are charged to the capital reserve account rather than being capitalized on the Statement of financial position and amortized over their estimated useful lives. Under the terms of the Ontario Social Housing Reform Act, ANPHI is required to establish the Capital reserve fund in order to finance capital asset purchases. The investments in the fund are to be maintained and accounted for separately from the corporation's other cash and investments. Income earned, both realized and unrealized, on the investment of the funds is allocated thereto.
- (e) A reserve for future capital replacement is appropriated annually from operations

Artscape Non-Profit Homes Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

3. Summary of significant accounting policies (continued)

Canadian ASNPOs have been used in other respects in the preparation of these financial statements, as follows:

Revenue recognition

ANPHI uses the deferral method of accounting for revenue from operating activities. Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Grants and other amounts received to cover the cost of specific capital assets are deferred and recognized as revenue over the same amortization period as the related capital asset.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when ANPHI becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost.

The cost of financial instruments approximates their fair value due to their short-term nature.

Use of estimates

Canadian ASNPOs requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing these financial statements are reasonable and prudent. Actual results could differ from these estimates. Accounts requiring significant estimates and assumptions include accrued liabilities, deferred revenue, deferred capital contributions, and amortization expense.

4. Capital assets

	Cost	Accumulated amortization	December 31, 2012 Net
	\$	\$	\$
900/906/910 Queen St. W., Toronto, ON			
Building	2,698,359	765,630	1,932,729
Less: grants and restricted donations	(518,143)	-	(518,143)
Land	522,600	-	522,600
	2,702,816	765,630	1,937,186
Artscape Wychwood Barns			
Leasehold improvements	6,717,210	400,234	6,316,976
Land	627,472	-	627,472
Less: grants and restricted donations	(3,216,804)	-	(3,216,804)
Donated land	(627,472)	-	(627,472)
	3,500,406	400,234	3,100,172
	6,203,222	1,165,864	5,037,358

Artscape Non-Profit Homes Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

4. Capital assets (continued)

	Cost	Accumulated amortization	December 31, 2011 Net
	\$	\$	\$
900/906/910 Queen St. W., Toronto, ON			
Building	2,698,359	681,908	2,016,451
Less: grants and restricted donations	(518,143)	-	(518,143)
Land	522,600	-	522,600
	<u>2,702,816</u>	<u>681,908</u>	<u>2,020,908</u>
Artscape Wychwood Barns			
Leasehold improvements	6,717,210	281,256	6,435,954
Land	627,472	-	627,472
Less: grants and restricted donations	(3,216,804)	-	(3,216,804)
Donated land	(627,472)	-	(627,472)
	<u>3,500,406</u>	<u>281,256</u>	<u>3,219,150</u>
	<u>6,203,222</u>	<u>963,164</u>	<u>5,240,058</u>

	Cost	Accumulated amortization	January 1, 2011 Net
	\$	\$	\$
900/906/910 Queen St. W., Toronto, ON			
Building	2,698,359	600,504	2,097,855
Less: grants and restricted donations	(518,143)	-	(518,143)
Land	522,600	-	522,600
	<u>2,702,816</u>	<u>600,504</u>	<u>2,102,312</u>
Artscape Wychwood Barns			
Leasehold improvements	6,717,210	167,264	6,549,946
Land	627,472	-	627,472
Less: grants and restricted donations	(3,216,804)	-	(3,216,804)
Donated land	(627,472)	-	(627,472)
	<u>3,500,406</u>	<u>167,264</u>	<u>3,333,142</u>
	<u>6,203,222</u>	<u>767,768</u>	<u>5,435,454</u>

Artscape Wychwood Barns - residential portion

This project was completed in 2008. Upon completion, the residential component of the project, including all costs, related grants and debt financing, was transferred from Toronto Artscape Inc. to ANPHI which, as a non-profit housing provider, administers the residential component as part of its arrangement with the Canada-Ontario Affordable Housing Program and the Affordable Housing Office of the City of Toronto. The residential component consists of 26 units of affordable housing at Artscape Wychwood Barns.

Artscape Non-Profit Homes Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

5. Capital work-in-process and deferred capital contributions - work-in-process

During the 2010, ANPHI was granted funding for six capital improvement projects at the 900 Queen Street West property under the Social Housing Retrofit Renovation Program (SHRRP). Costs for each of the six projects will be covered up to a specified maximum amount for each project. The total maximum amount to be funded for all projects is \$187,000. During 2012, ANPHI reimbursed \$2,766 (2011 – received \$80,701) to the City of Toronto and was reimbursed costs of \$5,861 (2011 – spent \$136,191) towards the projects.

6. Related party transactions and balance

Transactions

Toronto Artscape provides administrative services to ANPHI and full property management services for all projects developed and/or owned or leased by ANPHI.

Transactions during the year consisted of payments and charge-backs for miscellaneous operating expenses which occurred in the normal course of operations and included:

- Management fees of \$18,727 (2011 - \$36,000) charged to ANPHI by Artscape; and
- Rent of \$33,500 (2011 - \$33,000) charged by ANPHI to Artscape for the use of space at the Queen St. W. location.

Balance

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Due to Toronto Artscape Inc.	11,116	17,536	43,671

The amount is interest free and due on demand.

7. Long term debt

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Artscape Wychwood Barns			
TD Canada Trust 20 year mortgage maturing April, 2029 with blended monthly principal and interest payments totaling \$17,941 beginning May 1, 2009. Interest rate is 5.98%. The mortgage was converted from an interim construction loan in March, 2009.	2,252,922	2,332,575	2,407,665
Balance carried forward	2,252,922	2,332,575	2,407,665

Artscape Non-Profit Homes Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

7. Long term debt (continued)

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Balance brought forward	2,252,922	2,332,575	2,407,665
<p>City of Toronto Sustainable Energy Fund totaling \$700,000 allocated between the residential portion (ANPHI \$400,000) and the arts and green components (Artscape \$300,000) of the Barns. The loan is to be repaid in 240 equal monthly installments of \$2,917 beginning May 1, 2009, with ANPHI's share being \$1,667. Interest on the loan is at 0% as long as the payments are up to date. If not, then interest is at the bank prime rate. Security on the loan is a promissory note provided by Toronto Artscape Inc.</p>	326,670	346,669	366,667
<p>Green Municipal Fund loan totalling \$600,000 allocated between the residential component (ANPHI - \$463,280) and the arts and green components (Artscape - \$136,720) of the Barns. The term of the loan is 20 years with semi-annual blended principal and interest payments totalling \$18,808 (ANPHI's share \$14,522) occurring February 20 and August 20 of each year. Interest is at the Government of Canada bond rate minus 1.5%.</p>	406,582	425,908	444,811
<p>Obligation under capital lease from sale/leaseback agreement with Lift Capital totalling \$700,000, allocated between the residential portion (ANPHI \$34,830) and the arts and green portions (Artscape \$665,170) of the Barns, in respect of the HVAC and geothermal systems. The term of the lease is seven years, expiring in December 2015 with equal monthly payments of \$11,231 (ANPHI's share \$559). Interest on the lease is calculated at 10.5%. At the end of the lease, Artscape has the option to purchase the equipment for \$70,000, renew the lease for a further seven years, or return all of the equipment to the lessor.</p>	19,668	24,071	28,058
Balance carried forward	3,005,842	3,129,224	3,247,201

Artscape Non-Profit Homes Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

7. Long term debt (continued)

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Balance brought forward	3,005,842	3,129,224	3,247,201
900 Queen Street West			
Royal Bank 2.828% mortgage, repayable in monthly installments of \$11,606 including principal and interest, maturing September 1, 2015. The mortgage is secured by the property and a general assignment of rents.	1,937,186	2,020,908	2,102,293
	4,943,028	5,150,132	5,349,494
Less: current portion	(215,275)	(207,110)	(199,368)
Long-term portion	4,727,753	4,943,022	5,150,126

8. City of Toronto Social Housing subsidy

The Social Housing Reform Act for the Municipal Social Housing Programs of the City of Toronto applies to the project at 900/906/910 Queen St. W., Toronto, through to September 1, 2030. Under the agreement, the City provides a monthly subsidy to ANPHI which for 2013 is set at \$12,600 (2012 - \$12,405).

ANPHI has also entered into an affordable housing agreement with the City of Toronto in respect of the 26 residential units at Artscape Wychwood Barns (the residential component of the Barns). The City supplements ANPHI the difference between market rents and the actual rents received by ANPHI. The City will provide a monthly rent supplement of \$18,126 in 2013 (\$17,560 in 2012).

	Queen St. W. subsidy	Wychwood Barns rent supplement	Total
	\$	\$	\$
City of Toronto 2012 subsidy	148,860	286,025	434,885
City of Toronto 2011 subsidy	145,722	303,657	449,379

The City requires ANPHI to prepare an Annual Information Return ("AIR"), which is a summary of the corporation's financial and operating information. The total subsidy entitlement is calculated based on actual operations and is compared to the actual subsidy received to determine whether any subsidy amounts are repayable at year end. It has been determined that for the year ended December 31, 2012 ANPHI has an excess subsidy repayable of \$17,873 (for the year ended December 31, 2011 - \$23,441 in subsidy receivable).

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Due from City of Toronto			
900 Queen Street West	12,405	20,551	19,484
Artscape Wychwood Barns	41,919	52,951	28,766
	54,324	73,502	48,250

Artscape Non-Profit Homes Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

9. Capital reserve fund

(a) 900/906/910 Queen Street West

The Ontario Social Housing Reform Act, 2000, Regulation 339/01 - Part IV requires ANPHI to participate in a system for pooling capital reserves for investment purposes. This system requires that ANPHI's capital reserve fund be invested in Social Housing Investment Funds managed by SHSC Financial Inc., with Phillips, Hager & North as Portfolio Advisor.

In 2012, ANPHI was required to allocate an amount of \$18,631 (2011 - \$16,835) from the regular subsidy at 900 Queen St. W. from the City of Toronto to the capital reserve fund. Commencing January, 2013, ANPHI is required to allocate \$17,732 from the regular subsidy to the capital reserve fund specific to 900 Queen St. W.

In addition, each year ANPHI is required to pay 50% of its operating surplus from the Queen St. W. social housing operations to the City of Toronto. However, in accordance with the Toronto City Guideline 2007-5, ANPHI is allowed to retain \$100 per unit of their annual net income that they would normally repay to the City or the total share of operating income owed to the City, whichever is less providing that this amount is allocated to the capital reserve fund contribution.

	2012	2011
	\$	\$
Balance, beginning of year, January 1,	191,831	192,913
City of Toronto Social Housing - portion allocated from regular subsidy	18,631	16,835
Capital purchases	(3,600)	(21,945)
Income earned and unrealized gains	5,817	4,028
Balance, end of year, December 31,	212,679	191,831

Capitals purchases are comprised of:

	2012	2011
	\$	\$
Plumbing and Heating, ventilation and air conditioning	-	17,640
Elevator	3,600	-
Building envelope	-	4,305
Balance, end of year	3,600	21,945

(b) Artscape Wychwood Barns

Under the affordable housing agreement for Artscape Wychwood Barns, ANPHI is required to establish a replacement reserve fund of 8% of the projects annual revenue. One-half of this amount (4% of revenue) is to be allocated to a separate reserve account maintained at the Toronto Dominion Bank as required by the Canada Mortgage and Housing Corporation. The remainder of the fund is managed by Phillips, Hager & North.

For 2012, ANPHI has set up a provision of \$24,520 (2011 - \$23,783) towards the capital replacement reserve fund.

Artscape Non-Profit Homes Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

9. Capital reserve fund (continued)

(b) Artscape Wychwood Barns (continued)

	2012	2011
	\$	\$
Balance, beginning of year, January 1,	79,061	55,278
Capital purchases	(9,329)	-
Affordable Housing Program - provision for capital replacement reserve	24,520	23,783
<u>Balance, end of year, December 31,</u>	<u>94,252</u>	<u>79,061</u>

10. Commitments

Artscape Wychwood Barns

The property is leased from the City of Toronto, beginning March 26, 2006, under terms which require annual rental payments of \$1. The lease is for a term of 50 years, less one day.

11. Government remittances

There are no outstanding government remittances as at December 31, 2012, December 31, 2011, or January 1, 2011.